

# **Testimony of Sparb Collins On Senate Bill 2153**

Madam Chair, members of the committee my name is Deb Knudsen and I am Manager of Benefits Planning and Research for the North Dakota Public Employees Retirement System. I appear before you today on behalf of the PERS Board and in support of this bill. This bill provides various changes to the PERS statutes. I will highlight in the testimony the changes and I have also provided a table summary as well that is attached to my testimony.

**Section 1** of the bill relates to the PERS boards representation on the State Investment Board. The PERS Board is presently authorized to appoint 3 of its 4 elected members to the State Investment Board (SIB). This change would allow the Board to appoint as one of its 3 members a non-elected PERS Board member such as the Board Chair who is appointed by the Governor, the Attorney General's appointee, or the Health Officer or Health Officer's designee. The purpose of this change is to allow the board more flexibility in selecting from its membership who should serve on the State Investment Board. This bill does not change the membership of the Investment Board.

**Section 2** of the bill standardizes the purchase provisions of the Highway Patrol so they are the same as the PERS Plan.

**Section 3** of the bill authorizes payment of employee contributions on a pre-tax basis, instead of on an after-tax basis, for the Highway Patrol Retirement System

via employer pick-up under Internal Revenue Code rules, for compensation earned after August 1, 2009. Currently, the Highway Patrol members pay 6.3% out of pocket on an after tax basis for their retirement benefit. This change will enhance the take home pay for members of this system. The following table is an estimate of the benefit of this change:

<b>Highway Patrol</b>									
Contributions Post-tax (Current)									
Monthly Salary	Taxable Salary	Federal Tax (8.48%)	State Tax (1.39%)	Social Security (0.00%)	Medicare Tax (1.45%)	Retirement Contribution (6.30%*)	Total Paycheck	Paycheck Increase	Paycheck Increase Percent
2,000.00	2,000.00	169.60	27.80	0.00	29.00	126.00	1,647.60		
3,000.00	3,000.00	254.40	41.70	0.00	43.50	189.00	2,471.40		
4,000.00	4,000.00	339.20	55.60	0.00	58.00	252.00	3,295.20		
5,000.00	5,000.00	424.00	69.50	0.00	72.50	315.00	4,119.00		
Contributions Pre-tax (Proposed)									
2,000.00	1,874.00	158.92	26.05	0.00	29.00	126.00	1,660.03	12.43	0.75%
3,000.00	2,811.00	238.37	39.07	0.00	43.50	189.00	2,490.06	18.66	0.76%
4,000.00	3,748.00	317.83	52.10	0.00	58.00	252.00	3,320.07	24.87	0.75%
5,000.00	4,685.00	397.29	65.12	0.00	72.50	315.00	4,150.09	31.09	0.75%

**Section 4** changes the automatic distribution rules for the Highway Patrol plan to conform with federal requirements relating to automatic distributions. Specifically only accounts less than \$1,000 would be automatically distributed to the member unless they are directed otherwise.

**Section 5** of the bill allows members of the Highway Patrol Retirement System to elect a new optional form of monthly retirement benefit that provides a graduated increase of 1% or 2%. The monthly retirement benefit would be actuarially adjusted to provide for the post-retirement increases

**Section 6** of the bill updates federal compliance provisions for the Highway Patrol Retirement System, including additional language to comply with Internal Revenue Code section 415(b) and related regulations.

**Section 7** of the bill expands the eligibility for PERS Board membership to members of retirement systems administered by the Board other than PERS. This includes the Job Service Plan, the Highway Patrol Retirement System and the Defined Contribution Plan. This change is reflective of the scope of the Board's responsibility and enhances the equity and integrity of PERS by allowing all members the opportunity to serve on the Board.

**Section 8** of the bill is similar to section 3 of the bill except it authorizes payment of employee contributions on a pre-tax basis for the judges instead of on an after-tax basis via employer pick-up under Internal Revenue Code rules, for compensation earned after August 1, 2009. Currently Judges pay 1% out of pocket on an after tax basis for their retirement benefit. This change will enhance the take home pay for members of this system.

**Section 9** of the bill is similar to section 4 except it changes the automatic distribution rules for the PERS plan. This change is to conform with federal requirements relating to automatic distributions. Specifically only accounts less than \$1,000 would be automatically distributed to the member unless they directed otherwise. Section 9 also eliminates the 60-month term certain option as a form of payment for surviving spouses in the Hybrid Plan. This is being eliminated since it is an option that is no longer used.

**Section 10** of the bill adds the graduated benefit option to the PERS plan as Section 5 did for the Highway Patrol plan. . An example of the payments under

this option for a member with a normal retirement monthly benefit of \$1,000 retiring at age 65 is as follows:

Retiree Age	Monthly Single Life Benefit	Monthly Graduated Benefit with 1% Annual Increases	Monthly Graduated Benefit with 2% Annual Increases
65	\$1,000.00	\$925.67	\$853.93
66	\$1,000.00	\$934.93	\$871.00
67	\$1,000.00	\$944.28	\$888.42
68	\$1,000.00	\$953.72	\$906.19
69	\$1,000.00	\$963.26	\$924.32
70	\$1,000.00	\$972.89	\$942.80
71	\$1,000.00	\$982.62	\$961.66
72	\$1,000.00	\$992.45	\$980.89
73	\$1,000.00	\$1,002.37	\$1,000.51
74	\$1,000.00	\$1,012.39	\$1,020.52
75	\$1,000.00	\$1,022.52	\$1,040.93
76	\$1,000.00	\$1,032.74	\$1,061.75
77	\$1,000.00	\$1,043.07	\$1,082.98
78	\$1,000.00	\$1,053.50	\$1,104.64
79	\$1,000.00	\$1,064.04	\$1,126.74
80	\$1,000.00	\$1,074.68	\$1,149.27
81	\$1,000.00	\$1,085.42	\$1,172.26
82	\$1,000.00	\$1,096.28	\$1,195.70
83	\$1,000.00	\$1,107.24	\$1,219.62
84	\$1,000.00	\$1,118.31	\$1,244.01
85	\$1,000.00	\$1,129.50	\$1,268.89

**Section 11** of the bill updates the federal compliance provisions for the PERS plan as Section 6 did for the Highway Patrol plan.

**Section 12** of the bill relates to the health insurance plan and clarifies that “faculty member” instead of “teachers” who are teaching from one year to the next should be set up on an annual health contract. This is current practice and the purpose of this change is to clarify the terminology.

**Section 13** of the bill also relates to the health insurance plan and provides for the following:

- a. Eliminates the provision allowing an employee of a political subdivision not participating in PERS to participate.
- b. Allows an employer to pay the insurance premium for an employee on leave absence.

**Section 14** of the bill establishes the effective date for Sections 2, 5 & 10 as March 1 of 2011. PERS is in the process of replacing its existing business system with a new one that is scheduled to go live at the end of 2010. Delaying the implementation of these provisions by 18 months means that we will not have to incur expenses to change our existing system while also incorporating these same provisions in our business rules for our new our system.

This bill was reviewed by the by the interim Legislative Employee Benefits Committee and given a favorable recommendation. The bill as written will not have an actuarial impact on the PERS retirement plans and has no fiscal effect.

Madam Chairman, members of the committee this concludes my testimony.